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The Economics of Legal Immigration in California

Dennis J. Aigner†

The focus on immigration policy and free trade is heightened during times of economic recession. This is historical fact dating back at least 100 years in America and is reproduced in the histories of many other countries as well. Not surprisingly, the recession that began in 1989 throughout the United States, and which has been especially serious and prolonged in California, has spawned considerable discussion. Ross Perot’s diatribe during the 1992 presidential campaign regarding job losses to Mexico if NAFTA were to be passed1 and the heated debate regarding the costs and benefits of immigration2 are just two examples. While these examples may have more than economic motivation behind them,3 it is the economics of immigration that this paper will focus on. Indeed, it is the economics of legal immigration, to be more specific.

It is important to encourage and to engage in a discussion and analysis of what our country’s target level of legal immigration should be and what its composition ought to be, as between employment-based and non-employment-based admittees. There is at least a short-term cost associated with assimilating many newcomers and a less than infinite ability to cover that cost. Obviously, this subject is complex and goes well beyond an economic analysis (even if it were possible to do one, completely and convincingly). Certainly, changing economic and social conditions make planning a trajectory of optimal immigration levels and mixes difficult. Yet, this

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kind of analysis is no more difficult than for many other aspects of macro-economic policy-making.

Attempting to analyze future employment needs and asking whether they can be met from the existing native (non-foreign-born) population as it evolves through time is a reasonable proposition. Similarly, it is important to consider the costs of absorbing, integrating into the economy, new immigrants in the same way we consider how much society should invest in education for the existing population. Yet it is unreasonable and inappropriate, on the one hand, to claim that even broaching these topics for analysis is tantamount to committing an act of racial or ethnic bigotry or, on the other, to manipulate the data in order to support a position that emanates from considerations of racial or ethnic superiority.

As a means of advancing cogent planning and research on the immigration issue, this paper considers the evidence to date regarding three important aspects of the economics of immigration in California. First, what are the long-term benefits of legal immigration? Next, do immigrants have a greater propensity to use public assistance programs than natives? Finally, to what extent do immigrants displace natives in the workforce and what are the consequences of this displacement?

I. LONG-TERM ECONOMIC BENEFITS OF IMMIGRATION

This is undoubtedly the easiest to address of the issues posed. The past can provide significant guidance for the future. As one of, if not the most powerful and affluent economies in the world, our history is built upon immigration. Historically, immigrants have clearly played a predominant role in the development and success of this country.

Turning towards current immigration trends, the 1990 Census shows that immigrants who have resided in the United States for at least 16 years, and who now reside in California, have earnings similar to non-immigrants. This passage of time for economic assimilation, achieving comparable levels of earnings, is in the same range as reported by Julian Simon. The earnings distribution by age for more recent arrivals is substantially lower than for immigrants who have resided in the U.S. for longer periods of time. This is simply reflective of the beginning of the assimilation process.

4. Hans Johnson, Cal. Research Bureau, Immigrants in California: Findings From The 1990 Census 17 (1993). It is not just that mean or median earnings are similar. The entire distribution of earnings by age is similar.


However, there are some differences in educational levels of the most recently arrived immigrants in California that may impact potential earnings.\textsuperscript{7} The proportion of high school graduates in the cohort of persons over 25 that arrived from elsewhere during the 1985-89 period is slightly higher than it was in the previous three 5-year cohorts (1970-74, 1975-79, and 1980-84).\textsuperscript{8} Unfortunately, the overall proportion of high school graduates in the immigrant population aged 25 and over is dramatically less than in the non-immigrant population- 54\% for immigrants as compared to 83.6\% for non-immigrants.\textsuperscript{9} Interestingly, a counter-balancing fact is that more immigrants who entered the U.S. during the period 1985-89 either arrived with college degrees in hand or have since completed degrees (20.6\%) than ever before.\textsuperscript{10} Still, in the overall immigrant population, the proportion of persons with college degrees (18.3\%) lags the non-immigrant population (25\%).\textsuperscript{11}

How the economy evolves over time is closely linked with whether the most recently arrived immigrants will fare as well as their predecessors. One indicator of future success is the rate of educational attainment, which positively correlates with future economic strength. In both comparisons, there are significant differences in the high school and college completion rates by ethnicity. The White and Asian immigrant populations come close to the California non-immigrant population age 25 or over with respect to the proportion of high school graduates.\textsuperscript{12} These immigrant populations have high school completion rates at 74.3\% for Asian immigrants and 75.3\% for White immigrants.\textsuperscript{13} These groups actually exceed the non-immigrant population with respect to the proportion of college graduates.\textsuperscript{14} However, the Hispanic immigrant population, at least as of the 1990 Census, was significantly behind in both high school and college degree attainment rates. Hispanic immigrants had a high school completion rate of 31.1\% and a college completion rate of 5.1\%.\textsuperscript{15}

The under-educated, recently immigrated population in California should be of great concern to the general society. Our economic future, and perhaps more importantly our working democracy, are at stake. It bodes well that approximately half of the immigrant population compares favorably with the non-immigrant population as regards higher education. But the other half of the immigrant population in California, primarily recent His-
panic immigrants which have a college degree completion rate only one-fifth as great, should be cause for concern.

Finally, the age distribution of the immigrant population is quite favorable. When the age distribution favors working ages, this is a positive measure of "a population's ability to support nonworking people."\textsuperscript{16} Almost 50% of the immigrant population is concentrated in the younger working ages between 20 and 39, and there are somewhat fewer children and elderly people.\textsuperscript{17} Other factors aside, this distribution complements the age distribution of the non-immigrant population.\textsuperscript{18}

II.

\textbf{PROPENSITY OF IMMIGRANTS TO USE PUBLIC ASSISTANCE}

One of the central issues in the current debate regarding the costs and benefits of immigration is whether immigrants are more or less inclined to utilize public assistance programs, such as Supplemental Security Income (SSI) and Aid to Families with Dependent Children (AFDC).\textsuperscript{19} Johnson found that citizenship and immigrant status are not strong predictors of public assistance utilization. The key factors are educational attainment and household type.\textsuperscript{20} For example, immigrant households headed by a high-school graduate are only half as likely to utilize public assistance as those headed by non-high-school graduates.\textsuperscript{21} Only 54% of the state's immigrants have completed high school. There are over 6.5 million immigrants in California. Many of these people are potential welfare recipients; however, their propensity to actually become recipients is unrelated to their immigrant status.\textsuperscript{22}

Trends within the immigrant population among household types also indicates a lower potential to utilize public services. Immigrants are much less likely to be divorced or separated compared to the non-immigrant population.\textsuperscript{23} There is less reason then for immigrants to need the supplemental support such services would provide. Controlling for education and household type, Johnson found that immigrants have no greater propensity to utilize public assistance than non-immigrants.\textsuperscript{24}

In addition, there are large differences in poverty rates between immigrants and non-immigrants in California, with proportionately more immi-

\begin{footnotes}
\item[16.] Id. at 7.
\item[17.] Id.
\item[18.] Id.
\item[19.] Id. at 16. The Johnson analysis did not include Food Stamps or Medi-Cal programs.
\item[20.] Id. at 5.
\item[21.] Id. at 17.
\item[22.] Id. at 5, 9.
\item[23.] Id. at 12.
\item[24.] Id. at 18.
\end{footnotes}
grants falling below the poverty line.\textsuperscript{25} Roughly 20\% of immigrants fall below the poverty line, while just over 10\% of non-immigrants fall below the poverty line.\textsuperscript{26} Yet, immigrant households are only slightly more likely to receive public assistance than non-immigrant households (11.7\% as compared to 8.8\%).\textsuperscript{27} This may be explained in part by Smith and Tarallo’s recent findings. Their findings suggest that, in particular, recent Mexican immigrants “rely heavily on the informal social support provided by their extended family networks and more generally on the social ties forged in the Latino enclaves encompassing their jobs and their neighborhood.”\textsuperscript{28} The authors stress, however, that generalizations across ethnic groups and even regionally within the same ethnic group are not possible: “new immigrants and refugees do not use social services in the same ways throughout the state.”\textsuperscript{29}

III. DISPLACEMENT OF NATIVE WORKERS

Another important issue in the current immigration debate is whether and to what extent immigrants displace native workers in the labor force. Foreign-born workers currently comprise more than 25\% of California’s workforce.\textsuperscript{30} Immigrant workers now dominate the sectors of Agriculture, Forestry and Fishing (71.8\%) and are significant in Manufacturing (43.5\%), Trade (34.2\%) and Construction (29.6\%).\textsuperscript{31} In most of these and other sectors, the total number of jobs was expanding during the 1980s, and in some sectors the absolute number of jobs held by native workers was greater in 1990 than in 1980.\textsuperscript{32} But the largest relative gains were made by immigrants.\textsuperscript{33}

While these data are suggestive of the phenomenon of job displacement, they are not conclusive. One piece of evidence that would make the data conclusive is information on differential unemployment rates. If, for example, in the Construction sector it is found that along with an increased proportion of immigrant workers there is a differentially high native unemployment rate, we could conclude that immigrants do indeed displace natives. Unfortunately, this analysis has not yet been done, but it is feasible

\textsuperscript{25} Id. at 16.
\textsuperscript{26} Id.
\textsuperscript{27} Id.
\textsuperscript{28} MICHAEL P. SMITH & BERNADETTE TARALLO, CAL. POLICY SEMINAR, CALIFORNIA’S CHANGING FACES: NEW IMMIGRANT SURVIVAL STRATEGIES AND STATE POLICY 3 (Vol. 5, No. 15, 1993).
\textsuperscript{29} Id. at 2.
\textsuperscript{30} JOHNSON, supra note 4, at 15.
\textsuperscript{31} Id.
\textsuperscript{32} Id. See also Stuart Silverstein, Job Market a Flash Point for Natives, Newcomers, L.A. TIMES, Nov. 15, 1993, at A1 (containing detailed comparison for a number of sub-sectors in manufacturing, other services, and construction).
\textsuperscript{33} JOHNSON, supra note 4, at 15.
based on the 1990 Census. Overall in 1990, the native unemployment rate in California was close to frictional (4.6%) levels while the unemployment rate for immigrants was higher (6.4%). This data suggests that at the most macro-level of analysis there was no evidence of a displacement effect.

Another approach to elicit information regarding job displacement is to trace the history of real wages in sectors where the immigrant labor force has been increasing. This will enable researchers to determine if surges in immigration can be associated with identifiable shifts in the trajectory of wages. Actually doing this event study might suggest a relationship between real wages and immigration levels. There are other reasons, though, that can explain why real wages in blue-collar occupations might decline as they have been since the early 70s. One reason for this decline is the movement to off-shore locations of American manufacturing in order to take advantage of lower labor costs and corporate taxes. Another is the increased importation of goods from third-world countries, which has a depressing effect on the wages of workers in the U.S. owing to the pressure for wages to equalize across countries as a result of trade. Finally, there is the onslaught of corporate downsizing and the relentlessness of technological change which, in the minds of some writers, overshadows the wage depressing effects of free trade (including immigration). The upside of all these pressures is an increased demand for skilled labor. The downside is, possibly, the creation of a class of permanently unemployed workers.

If the skills of immigrants are sufficiently lower, or the labor market sufficiently segmented, then immigrants will not have a significant impact on native labor overall, though they will be close substitutes for unskilled members of the labor force. This issue formed the background for much of the immigration debate prior to World War I. Before the war, most American jobs were unskilled and hence, newly arrived immigrants competed directly with native labor. Moreover, rapid economic expansion allowed immigrants to enter certain occupations and displace native labor who migrated to other occupations.

This job ladder, or labor market segmentation, is what most experts believe best explains the structure of today's high-immigration centers like

34. Hans Johnson of the Cal. Research Bureau is working on this analysis now, by employment sector and educational level.
35. JOHNSON, supra note 4, at 14. Frictional unemployment means that level of unemployment associated with a full-employment economy.
37. SMITH & TARALLO, supra note 28, at 3.
38. Lawrence & Slaughter, supra note 36, at 163.
39. Id. at 165-66.
the Los Angeles metropolitan area. Economic restructuring caused by in-
migration of professionals and managers creates the segmentation. This in-
migration produces opportunities for immigrants, who frequently take jobs
in the underground economy or in secondary labor markets. The out-
migration of less skilled natives, while correlated with immigration, is the
result of switching to restructured modes of production. It is estimated that
the loss of one native blue-collar worker is associated with every seven
immigrants, but not because immigrants are directly displacing natives in
the labor force.

As to the costs and benefits of any such displacement with its concom-
itant lowering of wages, there are several considerations. Obviously, with
lower wages the owners of capital and consumers tend to benefit. Dis-
placed workers may or may not utilize public assistance. Some will find
other jobs and some will out-migrate. Whether the tax coffers are helped or
hindered also depends on several factors: how much the displaced workers
using public assistance cost, how much their tax contributions are affected
compared to the immigrant workers, how much of this economic activity is
underground, and how much additional economic activity is stimulated.

The benefits to owners of land and capital from the downward pressure
on wages in particular skill categories are estimated to be worth $5 billion
annually across the entire country. However, the net cost to society, after
accounting for taxes paid by immigrants, and for the increased welfare,
health and education benefits, should also be included. The best estimate of
the current social cost is about 1.1 million annually, suggesting that the net
economic benefit of legal immigration is indeed positive.

IV. Conclusions

The purpose here is not to engage in a comprehensive analysis of the
economic costs and benefits of immigration. Instead, I have tried to pres-

40. Robert Walker et al., Linked Migration Systems: Immigration and Internal Labor Flows in the
41. Id.
42. George J. Borjas, Immigration, 1993 THE FORTUNE ENCYCLOPEDIA OF ECONOMICS 484, 488
(David R. Henderson ed.).
43. Id.
44. There have been other attempts in recent years to provide such a comprehensive analysis. See
JULIAN SIMON, THE ECONOMIC CONSEQUENCES OF IMMIGRATION (1989); GEORGE J. BORJAS, FRIENDS OR
STRANGERS: THE IMPACT OF IMMIGRATION ON THE U.S. ECONOMY (1990). These are clearly the most
instructive. See also DONALD HUDDLE, CARRYING CAPACITY NETWORK, THE COST OF IMMIGRATION
(1993). While ambitious, this work is flawed in numerous respects, making his final conclusions of
dubious reliability. But see JEFFREY S. PASSEL, THE URBAN INSTITUTE, IMMIGRANTS AND TAXES: A
REAPPRAISAL OF HUDDLE'S "THE COST OF IMMIGRANTS" (Working Paper #PRIP-UI-29, 1994). Pro-
vides an excellent critique of Huddle's work.
ent the most recent evidence available on three primary aspects of such an analysis. The conclusions are as follows.

First, historically, economic assimilation of immigrants has proceeded relatively smoothly and with excellent results. Since 1970, however, arriving immigrants have had significantly lower high school graduation rates than the non-immigrant population. During that same time frame, the wage gap between persons with at least a high school education and those without widened. If the economy evolves as it has in the recent past, it is probable that the most recently arrived immigrant cohorts will join the ranks of the permanently unemployed. If that were to occur, the end result would be a lowering of the U.S. standard of living.

After surveying educational and household data, the evidence does not reveal a significant difference between the propensity of immigrants to use public assistance compared to natives. Immigrants, however, are under-educated, resulting in a greater proportion of the immigrant population falling below the poverty line. Since these people will utilize public assistance at a greater rate than those living above the poverty line, an additional social burden may be imposed.

As stated at the outset, it is important for society to engage in an analysis and reasoned debate about the immigration issue. Public policy decisions are often made without the benefit of a complete and convincing analysis. In this case, however, researchers and policy analysts should work hard to develop credible analyses, test assumptions, and subject their efforts to critical scrutiny. The broad policy question of optimal immigration levels must be factored into our public policy agenda on an on-going basis, not only when poor economic conditions fire up the emotions of protectionism. With the establishment of the U.S. Commission on Immigration Reform, created as part of the 1990 Immigration Act, we have a process in place that creates forward-looking, rather than reactionary, immigration policy.

Immigrants are an investment in the future, not a cost. How much of an investment should be made? If society must bear the full cost of training and education, then the investment is more expensive. Nevertheless, immigrants are this country's heirs. It is worth some sacrifice to prepare them for that future.